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## THE HOUSTON PLAN OF TAXATION

BY J. J. PASTORIZA,

Finance and Tax Commissioner, Houston, Texas.

The Houston plan of taxation was inaugurated by the city council at the beginning of 1912 and has been continued during the years of 1913 and 1914. It contemplates the assessing of land at its fair value, and the assessing of buildings and other improvements upon land at 25 per cent of their value. The effect of this has been to stimulate enormously the investment of capital in buildings and manufacturing industries. The partial exemption of buildings from taxation has caused the erection of modern, sanitary and up-to-date buildings and in time will have the effect of causing the owners of old insanitary buildings to reconstruct them along modern lines or go without tenants. It will have a tendency to prevent the creation of slums and insanitary buildings where people must live or work.

The Houston plan contemplates the total exemption from taxation of notes, mortgages, evidence of debt, household furniture and cash. The effect of this has been to increase the amount of money deposited in our banks and hence make money easy to borrow and to circulate. The bank deposits of Houston have increased \$7,000,000 in the past two years. Certainly this is due, in a measure at least, to the fact that the people who had money knew that if they placed it in the banks it would not be taxed. The banks having greater deposits had more money to lend and thus it was easier for the man without money to borrow, because of the increased quantity of money available.

The effect of not taxing mortgages or notes was to prevent an increase in the interest-rate charged. It is very evident that if the lender of money had to pay a tax upon it that he would increase his interest to the amount of tax, thus making the borrower pay it instead of himself. Every attempt to tax personal property which has been made in the world has resulted in either the owner of personal property hiding same, lying about same, or if it was taxed, has allowed him to shift the tax to the ultimate consumer or user.

Under the Houston plan of taxation vacant lots which have heretofore been used as a receptacle for old tin cans and rubbish

are now being improved and put to their best use. The longer the system remains in operation the greater will be the benefit to the majority of the people. The only man who can complain is the man who is holding much vacant land out of use, refusing to improve it and refusing to sell it at what it is worth for use to someone else.

When the Houston plan of taxation is carried to its logical conclusion, people will begin to realize what the millennium upon earth means.

When elected tax commissioner of Houston in 1911, I found a great mass of taxpayers disgruntled and dissatisfied with the management of the tax office. I soon discovered that each taxpayer thought his neighbor was getting his property assessed for less than he was, so in order to keep even would resort to all kinds of misrepresentation in order to get his own assessment lowered.

I took a number of pieces of land and blocks from each ward in the city, tabulated their assessed value and in a column alongside placed what it was generally believed each piece of property was worth for sale. The result showed some pieces of land or lots were assessed as low as 8 per cent of their value, while many small homes were assessed at more than their value. I readily saw the cause of all the dissatisfaction and could well understand why taxpayers would come up to the office, call the assessor all kinds of hard names and declare that the city was a robber and a thief. I set about to remedy this dangerous spirit which was being manifested by the people almost to the point of revolution by a decision to equalize the assessed values of land with reference to the ownership. Having met, fifteen years before, a man by the name of Somers in New York, who was then formulating a series of tables which were intended to be used for calculating the value of the various lots in a block when the price per front foot of the middle lot on the four sides of the block was given, I communicated with him and learned that he had sold his right to the Manufacturers' Appraisal Company of Cleveland, Ohio. Getting in touch with these people I soon learned that the Somers system if properly applied would equalize the values of real estate of Houston, so upon my recommendation the city council made a contract with them. They had nothing to do with placing values upon our real estate, mind you. I got these values by securing the coöperation and assistance

of the property owners themselves, together with a select committee from the Chamber of Commerce and the Houston real estate exchange; all of these men working two afternoons each week without pay.

The entire assessment of the city of Houston for the year 1910, which was the year preceding my election, was \$63,746,000. The Somers system was applied to the business district only in 1911, which gave us an increase of \$13,500,000 in land value assessment alone. The system was applied to the entire city in 1912, which added \$19,000,000 more of land values alone. This gave us a total assessment for 1913 of a little over \$96,000,000. From this you will see that the total assessments of the city of Houston from 1910 to 1913 were increased through this equalization \$33,000,000 or over 50 per cent. This was done in spite of the fact that we adopted what has since become known throughout the United States as the Houston plan of taxation, which is more a plan of tax exemptions than that it is a plan of taxation. That is, we exempted totally from taxation all cash, mortgages, notes, evidences of debt, household furniture and such personal effects as horses and buggies, watches, jewelry, sewing machines, pianos, etc., and we exempted all houses, machinery and other improvements upon land to the extent of 75 per cent of their value; that is, we assessed them for only 25 per cent of their present worth.

One would think that all these exemptions would have reduced our assessment, but our records show for themselves, and also prove that the lands of Houston had been grossly undervalued for assessment purposes. The result of this low taxation of land had become manifest in high rents. Think of it! In a city of less than 100,000 people, merchants were paying a rental of \$1,000 per month for a store of twenty-five feet front. Five- and six-room cottages were rented at from \$35 to \$40 per month and five-room apartments in flats at from \$45 to \$60 per month. Rent was so high that many people who wanted to locate here, after coming, went away again.

After two years of application of the Houston plan of taxation we have this result:

Rents have fallen 20 per cent and will fall more in certain cases where they were unduly excessive.

A published statement that we would not tax money increased our bank deposits \$7,000,000 in two years. Our building permits

increased the first six months, 66 per cent, and for the first year, 51 per cent.

The great inequality of previous assessments was shown by the fact that when the year's work was done we discovered that over 5,000 people paid less taxes than they did the year before, notwithstanding that a total increase of \$33,000,000 had been added to the rolls.

Formerly a taxpayer would come up and perjure himself by lying as to how much cash he had, the value of his household furniture or whether or not he had any mortgages or credits. Now he comes up to the office and signs his assessment, made out and the price placed there by the office, and unless he can prove that this price is more than his property is fairly worth he has no recourse except to sign his assessment or it will be signed for him by the assessor.

We have just completed our assessments for the year 1914 and out of 12,000 taxpayers only fifty refused to accept our prices as placed upon their real estate. Even if these fifty have a just cause for complaint, which will be investigated, it certainly goes to show that it is a very small percentage, and it also proves that the people are satisfied with the Houston plan of exemptions and the Somers system of equalization.